

**REPORT OF THE AUDIT OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 23, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 23, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Clark County Sheriff as of April 23, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$12,751,086 for the districts for 2003 taxes, retaining commissions of \$384,331 to operate the Sheriff's office. The Sheriff distributed taxes of \$12,357,746 to the districts for 2003 taxes. Taxes of \$434 are due to the districts from the Sheriff and refunds of \$433 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Implement Adequate Daily Cash Check-Out Procedures
- Fidelity Bonds Should Adequately Protect County From Potential Loss
- The Sheriff's Tax Settlement Should Be Published

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2003 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable John W. Myers, Clark County Judge/Executive

Honorable Ray E. Caudill, Clark County Sheriff

Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the Clark County Sheriff's Settlement - 2003 Taxes as of April 23, 2004. This tax settlement is the responsibility of the Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clark County Sheriff's taxes charged, credited, and paid as of April 23, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Implement Adequate Daily Cash Check-Out Procedures
- Fidelity Bonds Should Adequately Protect County From Potential Loss
- The Sheriff's Tax Settlement Should Be Published

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 22, 2005

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 23, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,065,031	\$ 1,386,000	\$ 5,908,735	\$ 1,940,399
Tangible Personal Property	172,903	167,963	689,965	628,429
Intangible Personal Property				167,396
Taxes Increased Through Erroneous Assessments				7,434
Franchise Taxes	145,914	160,311	668,237	
Additional Billings	585	751	3,198	5,977
Bank Franchise Taxes	99,261			
Penalties	5,988	7,638	32,489	14,128
Adjusted to Sheriff's Receipt	(181)	(230)	(972)	(612)
Gross Chargeable to Sheriff	<u>\$ 1,489,501</u>	<u>\$ 1,722,433</u>	<u>\$ 7,301,652</u>	<u>\$ 2,763,151</u>
<u>Credits</u>				
Exonerations	\$ 9,577	\$ 10,286	\$ 42,855	\$ 38,343
Discounts	20,493	23,405	99,345	41,600
Delinquents:				
Real Estate	21,458	27,925	119,047	39,094
Tangible Personal Property	2,718	2,641	10,848	5,564
Intangible Personal Property				218
Uncollected Bank Franchise	<u>10,234</u>			
Total Credits	<u>\$ 64,480</u>	<u>\$ 64,257</u>	<u>\$ 272,095</u>	<u>\$ 124,819</u>
Taxes Collected	\$ 1,425,021	\$ 1,658,176	\$ 7,029,557	\$ 2,638,332
Less: Commissions *	<u>60,851</u>	<u>70,472</u>	<u>140,591</u>	<u>112,417</u>
Taxes Due	\$ 1,364,170	\$ 1,587,704	\$ 6,888,966	\$ 2,525,915
Taxes Paid	1,363,235	1,586,492	6,883,787	2,524,232
Refunds	<u>933</u>	<u>1,216</u>	<u>5,176</u>	<u>1,683</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 2</u>	<u>** (4)</u>	<u>\$ 3</u>	<u>\$ 0</u>

* and ** - See Next Page

The accompanying notes are an integral part of the financial statement.

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES
April 23, 2004
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	5,711,529
2% on	\$	7,029,557

** Special Taxing Districts:

Library District	\$	331
Health District		98
Extension District		<u>(433)</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>(4)</u></u>
---------------------------------------	----	-------------------

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS

April 23, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 23, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENTS
April 23, 2004
(Continued)

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2003 through April 23, 2004.

Note 4. Interest Income

The Clark County Sheriff earned \$4,258 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Clark County Sheriff collected \$51,955 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Clark County Sheriff collected \$1,698 of advertising costs and \$2,821 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing escrow account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys in this escrow account. According to KRS 393.090, effective through June 23, 2003, property is presumed abandoned after seven years, after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended, effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For 2003 tax collections, the Sheriff had \$5,344 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

THIS PAGE LEFT BLANK INTENTIONALLY

CLARK COUNTY
RAY E. CAUDILL, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 23, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month

The Sheriff reported franchise and property tax collections on twelve separate reports for 2003 collections. Our review of these reports indicated the Sheriff did not report and distribute money collected in a timely manner for eleven of the twelve reporting periods. KRS 134.300 requires the Sheriff to report and distribute money collected during the preceding month by the tenth of each month. We recommend the Sheriff report and distribute all taxes in a timely manner as required by KRS 134.300.

Sheriff's Response: New software package has remedied this process.

The Sheriff Should Implement Adequate Daily Cash Check-Out Procedures

Our examination of daily receipts indicated the Sheriff did not maintain daily collection reports during the collection of 2003 taxes. Technical Audit Bulletin 93-002, Section 4 requires the Sheriff to reconcile daily collections to daily deposits. We recommend the Sheriff maintain daily collection reports and reconcile these reports to daily deposits as required.

Sheriff's Response: New software package creates daily reports.

Fidelity Bonds Should Adequately Protect County From Potential Loss

As of the audit date, the amount of the Sheriff's county revenue bond was \$50,000. In our opinion, this amount is insufficient to adequately protect the county from potential loss. We recommend the fiscal court review the Sheriff's county revenue bond and take the appropriate action necessary to ensure that the county is adequately protected.

Sheriff's Response: Recognized and changed accordingly.

The Sheriff's Tax Settlement Should Be Published

The Sheriff's Settlement of 2003 Taxes was not published. KRS 134.310(2) requires the settlement to be published pursuant to KRS Chapter 424. We recommend the Sheriff publish his settlement in the future as required.

Sheriff's Response: Future tax settlements will be published as required.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Clark County Sheriff's Settlement - 2003 Taxes as of April 23, 2004, and have issued our report thereon dated June 22, 2005. The Clark County Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's Settlement - 2003 Taxes as of April 23, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Tax Collections By The Tenth Of Each Month
- The Sheriff Should Implement Adequate Daily Cash Check-Out Procedures
- Fidelity Bonds Should Adequately Protect County From Potential Loss
- The Sheriff's Tax Settlement Should Be Published

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 22, 2005

